

**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Sandy Watkins, Henderson County Judge/Executive
Honorable Dennis Clary, Henderson County Sheriff
Members of the Henderson County Fiscal Court

The enclosed report prepared by Kem, Duguid & Associates, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the Sheriff of Henderson County, Kentucky, for the year ended December 31, 2003.

We engaged Kem, Duguid & Associates, PSC to perform the audit of this statement. We worked closely with the firm during our report review process; Kem, Duguid & Associates, PSC evaluated the Henderson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
SHERIFF**

**For the Year Ended
December 31, 2003**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HENDERSON COUNTY SHERIFF

**For The Year Ended
December 31, 2003**

Kem, Duguid & Associates, PSC has completed the Henderson County Sheriff's audit for the year ended December 31, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$112,448 from the prior year, resulting in excess fees of \$931,844 as of December 31, 2003. Revenues increased by \$111,016 from the prior year and expenditures decreased by \$1,432.

Report Comment:

- Lacks Adequate Segregation of Duties

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES-REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	5
COMMENT AND RECOMMENDATION	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15

KEM, DUGUID & ASSOCIATES, P.S.C.

Certified Public Accountants

102 WEST SECOND STREET

P. O. Box 562

HOPKINSVILLE, KENTUCKY 42240

(270) 886-6355 (270) 886-8662(FAX)

MICHAEL A. KEM

SANDRA D. DUGUID

The Honorable Sandy Watkins, Henderson County Judge/Executive
Honorable Dennis Clary, Henderson County Sheriff
Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees-regulatory basis of the County Sheriff of Henderson County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Honorable Sandy Watkins, Henderson County Judge/Executive
Honorable Dennis Clary, Henderson County Sheriff
Members of the Henderson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Henderson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Kem, Duguid & Associates, P.S.C.
Kem, Duguid & Associates, PSC

Audit fieldwork completed – June 10, 2005

HENDERSON COUNTY
DENNIS CLARY, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES-REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State Fees For Services:

Finance and Administration Cabinet	\$ 202,020	
Cabinet for Human Resources	3,431	
Sheriff Security Service	<u>92,967</u>	\$ 298,418

Circuit Court Clerk:

Fines and Fees Collected		4,810
--------------------------	--	-------

Fiscal Court		72,798
--------------	--	--------

County Clerk - Delinquent Taxes		3,442
---------------------------------	--	-------

Commission on Taxes Collected		448,699
-------------------------------	--	---------

Fees Collected for Services:

Auto Inspections	\$ 29,235	
Serving Papers	78,093	
Carrying Concealed Deadly Weapon Permits	<u>5,130</u>	112,458

Other:

Sheriff's Add-On Fees for Taxes Collections	\$ 64,909	
Copies	1,386	
Miscellaneous	<u>1,365</u>	67,660

Interest Earned		<u>2,751</u>
-----------------	--	--------------

Total Revenues		<u>\$ 1,011,036</u>
----------------	--	---------------------

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
DENNIS CLARY, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES-REGULATORY BASIS
For The Year Ended December 31, 2003
(Continued)

Expenditures

Operating Expenditures:

Materials and Supplies-

Office Materials and Supplies

\$ 70

Other Charges-

Postage

1,234

Carrying Concealed Deadly Weapon Permits

3,469

Miscellaneous

1,558

Total Expenditures

\$ 6,331

Net Revenues

\$ 1,004,705

Less: Statutory Maximum

72,861

Excess Fees Due County for 2003

\$ 931,844

Payments to County Treasurer-Monthly

931,906

Overpayment Of Excess Fees to Fiscal Court

\$ (62)

Amount Due to Sheriff for Underpayment of Statutory Maximum

62

Balance Due Fiscal Court at Completion of Audit

\$ 0

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of the accrual of the following items (not all-inclusive) at December 31, 2003 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Henderson County Fiscal Court approved a fee pooling system for the Henderson County Sheriff. Under the fee pooling system, revenues net of direct expenses of the County Sheriff's Office are paid to the Henderson County Treasurer in the subsequent month. Therefore, the County pays almost all of the expenses of the Henderson County Sheriff's Office.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 4. Forfeiture Account

The Sheriff maintained a forfeiture account for calendar year 2003. The beginning balance was \$7,169. Receipts during the year were \$78, including \$78 in interest income. Disbursements during the year totaled \$1,751, resulting in an ending cash balance at December 31, 2003 of \$5,496, which is not available as excess fees.

Note 5. K-9 Account

The Sheriff maintained a K-9 account for the calendar year 2003. The beginning balance was \$122. Receipts during the year were \$4 and disbursements during the year totaled \$99, resulting in an ending cash balance at December 31, 2003 of \$27, which is not available as excess fees.

Note 6. Litigation

A deputy sheriff was involved in an automobile accident in which a lawsuit was filed. The accident occurred March 4, 2003. The claim is worth at least \$300,000 and is covered by KALF.

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENT AND RECOMMENDATION

HENDERSON COUNTY
DENNIS W. CLARY, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For the Year Ended December 31, 2003

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare the daily bank deposit to the daily collection report and then compare the daily checkout sheet to the receipts ledger and daily checkout sheet. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the monthly tax reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balances in the checkbook. Any differences should be reconciled. The Sheriff could document this by initially the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

No response

PRIOR YEAR:

The prior year report contained a comment and recommendation, which has been corrected.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$669,600 To Protect Deposits

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

KEM, DUGUID & ASSOCIATES, P.S.C.

Certified Public Accountants

102 WEST SECOND STREET

P. O. BOX 562

HOPKINSVILLE, KENTUCKY 42240

(270) 886-6355 (270) 886-8662(FAX)

MICHAEL A. KEM

SANDRA D. DUGUID

The Honorable Sandy Watkins, Henderson County Judge/Executive
Honorable Dennis Clary, Henderson County Sheriff
Members of the Henderson County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Henderson County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated June 10, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Henderson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be material weaknesses.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Henderson County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Kem, Duguid & Associates, P.S.C.
Kem, Duguid & Associates, PSC

Audit fieldwork completed –June 10, 2005

